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USTR FOR SAUMS
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COMMERCE FOR 4520/ITA/ANESA/TALAAT

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SUBJECT: ITALY'S SAN PAOLO WINS BANK OF ALEXANDRIA AUCTION

¶1. (U) The Italian Gruppo SanPaolo IMI, Italy's third largest bank, won the auction for Bank of Alexandria (BOA) for a total price of \$1.6 billion. SanPaolo will purchase 80 percent of BOA's shares, with 5 percent reserved for BOA employees and the remaining 15 percent floated on the Cairo/Alexandria Stock Exchange. Journalists were barred from entering the auction room at Mena House Hotel in Giza, but proceedings were broadcast over closed circuit to officials at the Central Bank and the ministries of Finance and Investment. Other than announcing the winner and sale price, the GOE did not make any official statement on the sale or indicated when the transaction will be finalized.

¶2. (SBU) BOA has assets of \$6.9 billion and total deposits of \$5.4 billion. Although the smallest of Egypt's public banks in assets, it has the largest network of any bank in Egypt, with 188 branches nation-wide. The \$1.6 billion sale price exceeded most estimates, including that of the local Economist Intelligence Unit, which estimated the bank's value at approximately \$1 billion. However, some press statements predicted a sale price of up to \$2 billion, given BOA's large branch network. The GOE studiously avoided estimating the bank's value in the run up to today's auction, no doubt to diminish the possibility of claims that BOA was sold for less than fair value. The GOE recently sold Omar Effendi, a publicly-owned department store, amidst widespread criticism that the sale price was less than the company's true worth.

¶3. (U) The GOE is expected to use the proceeds from the sale to further banking sector reform and help offset the non-performing loans (NPL) of the other public banks. The merger of Banque du Caire into Banque Misr will be completed by the end of 2006, leaving only two public banks, Banque Misr and the National Bank of Egypt, operating in the market. The combined NPL portfolio of the public banks is estimated at LE 19.2 billion (\$3.3 billion). The Central Bank has not announced plans to further either of the two remaining public banks. However, consolidation of private banks is moving forward through the Central Bank's enforcement of the LE 50 million minimum capital provision in the 2003 Banking Law.

¶4. (SBU) Comment: SanPaolo is a bit of a surprise winner, as most local observers were expecting Egypt's Commercial International Bank (CIB) to win the auction. It is widely believed that CIB brought in U.S. investment firm Ripplewood, which bought 18 percent of CIB late last year, specifically to bolsters its chances of acquiring BOA. Some observers believed that in the event CIB did not win, one of the two Arab banking consortia participating in the auction (a Jordanian/Saudi consortium and an Emirati consortium) would win. No Embassy contacts predicted SanPaolo as the winner. SanPaolo will be the first Italian bank to enter Egypt's market, following the trend of a number of other European banks. France's Credit Agricole

recently expanded its operations in Egypt through acquisition of Egyptian American Bank, and Greece's Pireaus Bank entered the market last yer through the purchase of Egyptian Commercial Bank End comment.